

Bob Brinker's Markettimer

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"I try to be cynical, but its
so hard to keep up."
... Lily Tomlin

STOCK MARKET TIMING

DJIA: 8506.62

S & P 500: 884.66

In our view, the U.S. stock market entered a secular bear market in the first quarter of year 2000. The benchmark starting points for this secular bear are:

Standard and Poor's 500 Index: 1527.46 March 24, 2000

Dow Jones Industrial Average 11722.98 January 14, 2000

Although it is too early to estimate the length of the secular bear market trend, the historic record shows two previous secular bear markets since the Great Depression. The first began September 3, 1929 (DJIA 381.18) and ended almost twenty-years later on June 13, 1949 (DJIA 161.60). The second started February 9, 1966 (DJIA 995.15) and ended over sixteen years later on August 12, 1982 (776.98).

As is the case with all secular trends, we expect this one to include a series of cyclical bear markets and cyclical bull markets, with a typical duration of one-to-three years each. The broad market is now into the 29th month of the first cyclical bear market in this process. This makes the current cyclical bear market the longest such decline since the early 1930's. In addition, the current cyclical bear market now ranks among the greatest of all time in terms of percentage decline, with the notable exception of the 89% stock market meltdown that occurred from late-1929 through mid-1932.

Since this is only the third secular bear market since the end of the Roaring 20's, it is very unfamiliar territory for most investors. Few who experienced the wrath of the 1929-1949 secular bear market remain active in today's marketplace. Those who experienced the difficult stock market period between February, 1966 and August, 1982 were swept up in the secular bull market trend that followed for over seventeen-years. Toward the end of that period, the "new era thinkers" took over the stock market in a frenzy of speculative activity that gave us Wall Street's sequel to Dutch Tulipmania.

During the last secular bear market, buy-and-hold investors were not rewarded for the risk of being in the stock market. The annual return for the broadbased Standard and Poor's 500 Index was 5.1%, and almost all of this return came in the form of taxable cash dividends. The Standard and Poor's 500 Index started the sixteen-year period on February 9, 1966 at a price level of 95, and finished on August 12, 1982 at a price level of 102. This resulted in a total cumulative price gain of just 7.4%, which is a compound annual rate of return of less than 0.5%.

Due to the high interest rates that prevailed during much of the period from 1966 through mid-1982, Treasury Bill investors did about the same as stock market investors, despite the fact that they took no risk. As a result, risk-free returns provided a better investment choice than risky and volatile equities during the secular bear period, when compared with a buy-and-hold investment approach.

There were four cyclical bear markets during the February 1966–August 1982 secular bear megatrend, as measured by the Standard and Poor's 500 Index. They were:

	<u>% Change</u>	<u>Duration</u>
February 9, 1966 to October 7, 1966	– 22.2%	240 days
November 29, 1968 to May 6, 1970	– 36.1%	543 days
January 11, 1973 to October 3, 1974	– 48.2%	630 days
November 28, 1980 to August 12, 1982	– 27.1%	622 days

The average length of these cyclical bears was 16.7 months. All were shorter than the current cyclical bear, and the only one that rivaled the current bear market in depth was the 1973–74 decline.

Secular bear markets are difficult for investors. Cash reserves are strategically valuable because they allow investors to take advantage of cyclical bull market opportunities that inevitably occur within the overall long-term secular trend. Ideally, stock market cash reserves can be invested during cyclical bull market periods in order to generate profits. The 1966–1982 secular bear market included four major cyclical bull markets, with gains ranging from 32% to 76%. The cyclical bulls lasted from 21 to 38 months based on the Dow Jones Industrial Average. Similar gains occurred in the broadbased Standard and Poor's 500 Index.

We will continue our effort to identify the next cyclical bull market opportunity. However, we recommend retaining stock market cash reserves until our long-term stock market timing indicators return to bullish territory. So far, there have been several false alarms sounded in Wall Street calling for the end of this brutal bear market. In all cases they have proved ephemeral. In spring of 2001, with the Standard and Poor's 500 Index trading in the mid-1100's, many declared the bear was over. Again, following the terrorist attacks in September of 2001, with the Standard and Poor's 500 Index closing as low as 966, many gurus declared the bear was over. Meanwhile, despite the inevitable short-term bear market rallies along the way, the broad market has continued to deteriorate under the cover of the secular downtrend that began early in year 2000.

We believe the stock market is inexorably linked to economic performance. Despite the extraordinary monetary and fiscal measures taken to stimulate economic growth since the beginning of 2001, the economy continues to fight an uphill battle toward recovery. This is evident in the steep falloff in Real GDP growth in the second quarter to only 1.1%, versus the revised first quarter figure of 5% which was heavily influenced by changes in inventory levels. The consumer remains the key to recovery, and the fundamentals relating to the health of the consumer remain questionable. Consumer debt as a percentage of personal income remains at record highs, and the personal savings rate has just started to improve from a level close to zero at yearend 2001. So far, thanks to low interest rates, housing has remained the bright spot for the U.S. economy.

All of this leads us to stay with our Standard and Poor's 500 Index operating earnings estimate for calendar year 2002 of \$42.20, within a \$41 to \$43 range. This estimate remains well below the Wall Street consensus. Our calendar year 2003 operating earnings estimate remains at \$47.10, also well below the Wall Street consensus. Our estimate for GAAP (generally accepted accounting principles) earnings in both years is \$5.00 below our operating earnings estimates. GAAP earnings include all charges, except those from discontinued operations and some extraordinary items.

Wall Street sage and author Peter L. Bernstein has the best quote we have seen regarding the subject of corporate earnings. Bernstein, who is the author of Against The Gods, The Remarkable Story of Risk, said "reported earnings are an open scandal of mis-information, subject to change without notice, as the saying goes." The subject of corporate earnings has become a Wall Street nightmare. Many issues remain controversial, including assumptions regarding pension fund returns, which tend to be overly optimistic in the 29th month of a major bear market. In addition, we have the ongoing conundrum of how to account for stock option issuance. Also, there is the issue of how companies should deal with "non-recurring" items that in too many cases are simply a reflection of a failed business plan. Although the accounting profession has more work to do in these areas, we regard the new Standard and Poor's definition of "core earnings" as a major step in the right direction.

In summary, the promise of the next cyclical bull market encourages us to remain vigilant and patient in anticipation of the next **Marketimer** buy signal. We expect to return to a fully invested position, ideally in the vicinity of the bottom of this cyclical bear market. In our view, the most likely timeframe is either later this year or during the first-half of 2003. We are maintaining our hold rating on Nasdaq 100 (QQQ) shares, as we believe they can trade at much higher levels during the next cyclical bull market. Subscribers interested in any change that may occur between newsletters may check the bulletin page at www.bobbrinker.com on a regular basis. When the next buy signal occurs, we will also post our model portfolio recommendations at the bulletin page, in addition to sending the information by mail to subscribers.

FEDERAL RESERVE UPDATE

The Federal Open Market Committee meets on August 13 to review economic conditions and decide whether any changes in short-term interest rates are necessary. Both the federal funds rate (1.75%) and the discount rate (1.25%) remain at 40-year lows as the Fed continues its relentless effort to promote economic growth. Meanwhile, the economic malaise continues against a backdrop of uncertain consumer confidence and a bear market in stock prices that ranks among the worst in the post-Depression era.

The Fed is reluctant to reduce rates further due to weakness in the dollar, which would likely weaken further if short-term rates were lowered again. An increase in rates at this time seems out of the question given the uncertain state of the economy. So we expect no change in interest rates at the upcoming FOMC meeting.

The Federal Reserve is doing all that it can to provide liquidity to the system during these troubled times. The monetary base shows year-over-year real growth of 10.3%, up from 9.2% last month. The narrowly defined money supply, M-1, shows real year-over-year growth of 3.7%, versus 4.7% last month. The broader M-2 monetary aggregate shows real year-over-year growth of 6%, up slightly from 5.8% last month.

Table A
Latest Monthly Data
(Billions)

	<u>July 2002</u>	<u>July 2001</u>	<u>Y-O-Y</u> <u>Changes</u>	<u>Real Y-O-Y*</u> <u>Changes</u>
Monetary Base	\$ 685.4	\$ 615.1	+11.4%	+10.3%
M-1	\$ 1,188.5	\$ 1,134.3	+ 4.8%	+ 3.7%
M-2	\$ 5,620.7	\$ 5,248.6	+ 7.1%	+ 6.0%

* Real changes year-over-year, adjusted for consumer price index increase of 1.1% for the 12-month period through 6-30-02.

BOB BRINKER'S RECOMMENDED LIST OF NO-LOAD FUNDS

FUND	INV.*	SIZE	% Total Return						\$1000 INV. 1-1-97=	EST. ^a	TEL.	ANN. ^b	PRICE
	OBJ.	MIL.\$	'97	'98	'99	'00	'01	'02 (7-31)		YD.	SWCH	EXP.	7-31-02
Baron Growth Fund 767 Fifth Avenue 49 th Floor New York, NY 10153 800-992-2766	G BGRFX	\$ 831	31.1	0.1	44.7	(4.6)	12.7	(10.1)	\$ 1835	0.0%	#	1.40%	27.57
Baron Small Cap Fund 767 Fifth Avenue 49 th Floor New York, NY 10153 800-992-2766	CGA BSCFX	\$ 717	-	2.2	70.8	(17.5)	5.2	(4.5)	---	0.1%	#	1.39%	14.52
Gabelli Asset Fund One Corporate Center Rye, NY 10580 800-422-3554	G GABAX	\$ 1635	38.1	15.9	28.5	(2.4)	0.2	(15.7)	\$ 1696	0.7%	Yes	1.37%	27.80
TIAA/CREF Equity Index 730 Third Avenue New York, NY 10017 800-223-1200	Russell 3000 TCEIX	\$ 115	-	-	-	-	(11.6)	(19.1)	---	0.1%	Yes	0.26%	6.51
TIAA/CREF Growth&Income 730 Third Avenue New York, NY 10017 800-223-1200	G&I TIGIX	\$ 508	-	30.5	24.5	(7.3)	(13.4)	(21.7)	---	0.9%	Yes	0.43%	9.41

* Investment Objective Codes: CGA = Capital Gains Aggressive; G = Growth; G&I = Growth & Income

a) Estimated annual yield represents approximate investment income for last 12-months expressed as percentage of fund assets.

b) Annual expense ratio reflects investment advisory fees and other expenses expressed as percentage of total fund assets.

Telephone redemption available.

BOB BRINKER'S RECOMMENDED LIST OF NO-LOAD FUNDS

<u>FUND</u>	<u>INV.* OBJ.</u>	<u>SIZE MIL.\$</u>	<u>% Total Return</u>						<u>\$1000 INV. 1-1-97=</u>	<u>EST.^a YD.</u>	<u>TEL. SWCH</u>	<u>ANN.^b EXP.</u>	<u>PRICE 7-31-02</u>
			<u>'97</u>	<u>'98</u>	<u>'99</u>	<u>'00</u>	<u>'01</u>	<u>'02</u> (7-31)					
Dodge & Cox Stock 1 Sansome St. (35th Fl.) San Francisco, CA 94104 800-621-3979	G&I DODGX	\$11421	28.4	5.4	20.2	16.3	9.3	(10.3)	\$ 1855	1.6%	#	0.55%	89.36
Dodge & Cox Balanced 1 Sansome St. (35th Fl.) San Francisco, CA 94104 800-621-3979	G&I DODBX	\$6902	21.2	6.7	12.0	15.1	10.0	(4.9)	\$ 1744	3.2%	#	0.53%	61.19
Neuberger & Berman Focus Fund 605 Third Avenue New York, NY 10158 800-877-9700	CGA NBSSX	\$1056	24.1	13.2	26.0	12.4	(6.7)	(35.1)	\$ 1205	0.0%	Yes	0.85%	22.26
Vanguard Calvert Social Index Fund P.O. Box 2600 Valley Forge, Pa 19482 800-662-2739	Social Index VCSIX	\$ 88	---	---	---	(9.0)	(14.1)	(22.8)	---	1.0%	Yes	0.25%	5.99
Schwab 1000 (R) 101 Montgomery St. San Francisco, CA 94101 800-266-5623	G SNXFX	\$3414	31.9	27.1	21.0	(8.2)	(12.3)	(19.0)	\$ 1323	0.8%	Yes	0.46%	25.89
Vanguard Index 500 P.O. Box 2600 Valley Forge, Pa 19482 800-662-2739	S&P 500 VFINX	\$58381	33.2	28.6	21.1	(9.1)	(12.0)	(19.9)	\$ 1329	1.0%	No	0.18%	84.28

R) 0.50% redemption fee on shares held less than six months.

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BOB BRINKER'S RECOMMENDED LIST OF NO-LOAD FUNDS

FUND	INV.*	SIZE	% Total Return						\$1000 INV. 1-1-97=	EST. ^a YD.	TEL. SWCH	ANN. ^b EXP.	PRICE 7-31-02
	OBJ.	MIL.\$	'97	'98	'99	'00	'01	'02 (7-31)					
Vanguard Index (x) Extended Market Portfolio P.O. Box 2600 Valley Forge, Pa 19482 800-662-2739	Index VEXMX	\$2686	26.7	8.3	36.2	(15.5)	(9.2)	(17.3)	\$ 1186	1.0%	No	0.25%	19.10
Vanguard Index (x) Small Cap Stock Portfolio (address/phone above)	Russell 2000 NAESX	\$3141	24.6	(2.6)	23.1	(2.7)	3.1	(18.6)	\$ 1220	1.0%	No	0.24%	16.14
Vanguard Index Total Stock Market Portfolio (address/phone above)	Wilshire 5000 VTSMX	\$13648	31.0	23.3	23.8	(10.6)	(11.0)	(18.8)	\$ 1292	1.0%	No	0.20%	20.76
Vanguard International Growth Portfolio (address/phone above)	Non USA VWIGX	\$5009	4.1	16.9	26.3	(8.6)	(18.9)	(13.6)	\$ 984	1.1%	Yes	0.52%	12.97
Rowe Price European 100 East Pratt St. Baltimore, MD 21202 800-638-5660	Europe PRESX	\$ 705	17.0	25.8	19.7	(6.7)	(20.7)	(16.2)	\$ 1092	1.0%	Yes	1.01%	13.41
Longleaf Partner's Int'l 6410 Poplar Ave. Suite 900 Memphis, TN 38119 800-445-9469	Int'l Growth LLINX	\$ 938	---	---	24.4	25.9	10.5	(9.2)	---	2.3%	#	1.79%	11.21
Rydex OTC Fund 6116 Executive Blvd. Suite 400 Bethesda, MD 20852 800-820-0888	CGA RYOCX	\$ 658	21.9	86.5	100.6	(37.8)	(34.7)	(39.3)	\$ 1124	0.0%	Yes	1.15%	6.71

x) Vanguard Index Extended and Small Cap funds charge purchase fees of 0.5% or less to defray expenses of broad diversification;
annual expense ratios on these funds are extraordinarily low.

#) telephone redemption available

INTEREST RATES / FIXED- INCOME INVESTING

This month we are adding duration to our bond market coverage. Duration is the weighted average of the times that interest payments and the final return of principle are received. The weights are the present values of the payments, using the bond's yield-to-maturity as the discount rate. The academic rule of thumb states that the percentage change in the price of a bond or bond fund is the duration multiplied by the change in interest rates. Applying duration to the Vanguard Ginnie Mae Fund, the fund's current duration of 3.4 suggests that a one percent increase in intermediate term interest rates would result in approximately a 3.4% decline in the net asset value of the fund.

Marketimer's fixed-income recommendations have a current average yield of 5.12%, an average maturity of 5.0 years, and an average duration of 3.2.

<u>Fund</u>	<u>Weighting</u>	<u>Yield</u>	<u>Avg. Mat.</u>	<u>Duration</u>
Vanguard Fixed-Income Short-Term Federal (VSGBX)	25%	3.19%	2.5	2.1
Vanguard Ginnie Mae Fund (800-662-7447) (VFIIX)	50%	5.45%	4.7	3.4
Dodge & Cox Income Fund (800-621-3979) (DODIX)	25%	6.39%	8.2	4.0

Subscribers who prefer to keep fixed-income monies at Vanguard may substitute Vanguard Inflation Protection Securities Fund (VIPSX) for Dodge & Cox Income Fund. VIPSX has a current base yield of 2.49%, plus inflation adjustments based on the consumer price index, paid quarterly.

Our favorite money market funds with low expenses are Vanguard Prime Money Market, yielding 1.56%, and for tax-exempt income, Vanguard Tax-Exempt Money Market Fund, yielding 1.43%. Please note the tax-exempt money market fund is currently yielding almost as much as the taxable money market fund. Vanguard also offers tax-exempt funds for residents of CA, FL, MA, NJ, NY, OH and PA. We also like state general obligation bonds for tax-free income, with maturities in the 10-to-12 year range.

INDIVIDUAL ISSUES

Marketimer recommends limiting exposure to individual company stocks to no more than 4% of an equity portfolio. Index shares such as SPY, VTI, DIA and QQQ are not limited to 4% as they are linked to the performance of underlying stock indexes. The following issues are currently rated hold:

<u>ISSUES</u>	<u>Beta</u>	<u>Exchange</u>	<u>Symbol</u>	<u>8-02 Price</u>	<u>Est. earnings per share</u>	
Microsoft	1.27	Nasdaq	MSFT	45	1.90 (6-03)	2.15 (6-04)
Vodafone/AirTouch	1.10	NYSE	VOD	14.50	0.80 (3-03)	0.84 (3-04)
S&P Dep. Receipts	1.00	AMEX	SPY	88	4.22 (2002)	4.71 (2003)
Total Market VIPERS	1.03	AMEX	VTI	82	n/a	
DJIA Diamonds	0.97	AMEX	DIA	84	5.00 (2002)	5.80 (2003)
Nasdaq 100 Index	1.67	AMEX	QQQ	22.25	*	

* **Marketimer** estimates the forty-largest profitable companies in the Nasdaq 100 Index are trading at a weighted average multiple of 33.8 times projected 2002 earnings. These companies account for about 75% of the Nasdaq 100 Index capitalization.

ACTIVE/PASSIVE PORTFOLIO

The **Marketimer** active/passive portfolio has an investment objective that is very similar to Model Portfolio II on page eight. The portfolio currently holds 65% in stock market cash reserves, with 25% in Vanguard Total Stock Market Index, 5% in T. Rowe Price European or Vanguard European Index, and 5% in Vanguard International Growth. The portfolio features broad diversification, very low expenses, high tax-efficiency and risk management.

RECOMMENDED LIST CHANGE Gabelli Growth Fund has been deleted from coverage. Gabelli Asset Fund remains on the list and is also a 5% holding in Model Portfolio II.

MARKETIMER NO-LOAD MUTUAL FUND MODEL PORTFOLIOS

The *Marketimer* no-load model portfolios are designed to provide investors seeking aggressive, growth and balanced objectives with a strategic approach to investing in no-load funds over the long-term.

Model Portfolio I is designed for investors with *aggressive growth* investment objectives. Such investors seek maximum returns and are willing and able to accept high levels of risk and volatility. Current income is not a factor in this portfolio.

Model Portfolio II is designed for investors with *long-term growth* objectives. Such investors seek to enhance the value of capital over time and assume a reasonable level of diversified market risk. Current income is not an important factor.

Model Portfolio III is designed as a *balanced* portfolio for current investment income along with capital preservation and modest growth. The portfolio is allocated evenly between equities and fixed-income securities. This portfolio is best suited to investors nearing or already enjoying a retirement lifestyle.

MARKETIMER MODEL PORTFOLIO I

(\$20,000 value on 1-1-88)

<u>Current Holdings</u>	<u>%</u>	<u>Beta</u>	<u>Value</u>	<u>7-31-02</u>	<u>% Change</u>
Baron Growth	05	1.05	\$	4,309	
Baron Small Cap.	05	1.11		3,719	
Rowe Price European	05	0.68		2,431	
Vanguard Int'l. Growth	05	0.72		2,050	
TIAA/CREF Equity Index	15	1.00		13,482	
Money Market	<u>65</u>	<u>0.00</u>		<u>101,911</u>	
	<u>100%</u>	<u>0.33</u>	\$	<u>127,902</u>	<u>+ 540%</u>

MARKETIMER MODEL PORTFOLIO II

(\$20,000 value on 1-1-88)

<u>Current Holdings</u>	<u>%</u>	<u>Beta</u>	<u>Value</u>	<u>7-31-02</u>	<u>% Change</u>
Gabelli Asset Fund	05	0.71	\$	3,592	
Rowe Price European	05	0.68		2,713	
Dodge & Cox Stock Fund	05	0.61		4,438	
Vanguard Int'l. Growth	05	0.72		2,083	
TIAA/CREF Equity Index	15	1.00		9,560	
Money Market	<u>65</u>	<u>0.00</u>		<u>82,368</u>	
	<u>100%</u>	<u>0.29</u>	\$	<u>104,754</u>	<u>+ 424%</u>

MARKETIMER MODEL PORTFOLIO III

(\$40,000 value on 3-1-90)

<u>Current Holdings</u>	<u>%</u>	<u>Beta</u>	<u>Value</u>	<u>7-31-02</u>	<u>% Change</u>
Vanguard Short-Term Federal	25	0.00	\$	28,873	
Vanguard Ginnie Mae Fund	25	0.00		32,975	
Rowe Price European	02.5	0.68		2,110	
Dodge & Cox Stock Fund	05	0.61		8,542	
TIAA/CREF Growth & Income	07.5	1.03		7,496	
Vanguard Int'l. Growth	02.5	0.72		1,797	
Money Market	<u>32.5</u>	<u>0.00</u>		<u>39,590</u>	
	<u>100%</u>	<u>0.14</u>	\$	<u>121,383</u>	<u>+ 203%</u>

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